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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 8, Volume 8

May 3, 2013

Canada

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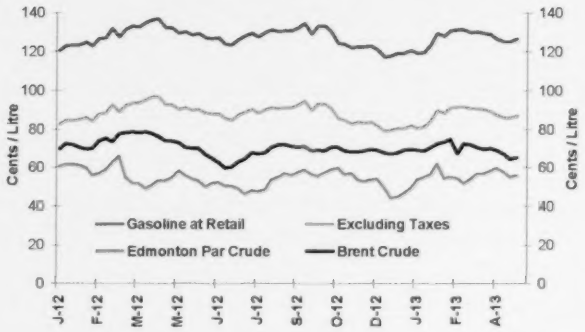
National Overview

Canadian Retail Gasoline Prices Up 1 Cent per Litre from Last Week

Higher world crude oil and domestic wholesale prices caused the average Canadian retail gasoline price to increase to $1.26 per litre for the week ending April 30, 2013, up by 1 cent per litre from the previous week.

Diesel fuel prices decreased by 3 cents per litre from last week to $1.24 per litre. This represents a decrease of 5 cents per litre from the same time last year. Furnace oil prices also declined to $1.16 cents per litre compared to the previous week, down 4 cents per litre from a year ago.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

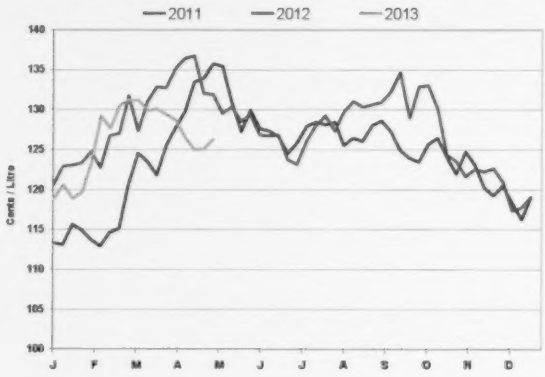


Recent Developments

- **Canada Top Crude Oil Supplier to the U.S.**: Crude oil imports from the top five foreign suppliers to the United States—which in 2012 were Canada, Saudi Arabia, Mexico, Venezuela, and Iraq, in that order—accounted for almost 72% of total U.S. net crude oil imports, the highest proportion since 1997. Canadian crude oil imports by the United States averaged a record 2.4 million bbl/d, up 8% from their 2011 level. (Source: US EIA, http://www.eia.gov/todayinenergy/detail.cfm?id=10911)

- **Canadian Eastern Refineries at Risk**: Poor refining margins have Imperial Oil soliciting buyers for its Dartmouth refinery in Nova Scotia since last May. According to the Canadian Fuels Association, an industry body of the country's refiners, while TransCanada Corp's Energy East and Enbridge's Line 9 reversal projects are welcome relief valves for the Canadian energy industry, they may do little to boost the prospects of some refineries. However, Eastern refineries are more concerned with cost considerations relating the impact of environmental policies to reduce Canadians' fuel consumption, reduce gasoline sulphur content, and reduce refinery emissions of pollutants and greenhouse gases. The Association claims that at least five of the nine refineries in Central and Eastern Canada may become economically unviable because of weak margins and overcapacity. (Source: Financial Post, April 19, 2013)

Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-04-30	Previous Week	Last Year
Gasoline	126.3	+1.2	-5.6
Diesel	123.6	-2.8	-4.6
Furnace Oil	115.5	-2.0	-4.1

Source: NRCan

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Retail Gasoline Overview

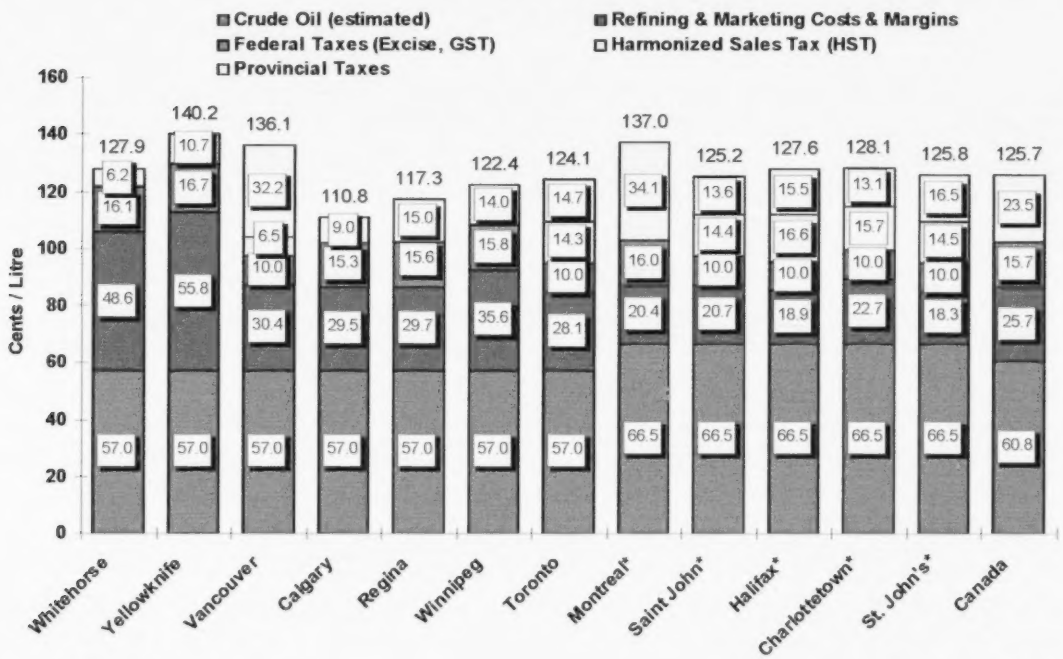
The **four-week average** Canadian pump price in selected cities across Canada was $1.26 per litre for the period ending April 30, 2013. This represents a 9 cent-per-litre decrease compared to the same period in 2012.

For the period ending April 30, 2013, **four-week average** crude oil prices decreased 2 cents per litre to 61 cents per litre. The crude oil price component of gasoline is 1 cent per litre lower than at the same time last year.

Over the last two weeks, the average gasoline price decrease in the individual centres was nearly 2 cents per litre. Price fluctuations ranged between a decrease of 4.5 cents per litre in St. John's to an increase of less than 1 cent per litre in Montreal.

The refining and marketing costs component remained almost unchanged at 26 cents per litre. Compared to a year ago, margins are down by 7 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 4 to 30, 2013)



Source: NRCan

** Regulated Markets*

Inventory Levels in the Canadian Petroleum Industry

To provide added flexibility to the distribution of petroleum products, refiners and marketers maintain inventories of the various products in strategic locations throughout the distribution chain. If supplies of imported or domestic crude oil were interrupted for any reason, or if the product distribution system failed, companies would rely on commercial inventories to meet short-term needs while alternate arrangements were being made.

Refiners also build up inventories of all products in advance of scheduled refinery maintenance (called turnarounds). Turnarounds can vary in frequency from annually to once every few years and sometimes require the refinery to be completely shut down for a period of several weeks. Refiners anticipate this by building up product stocks that can be used during the turnaround.

Refiners' crude oil inventories fluctuate over a very narrow band and are less seasonal than product stocks. There are significant regional variations in crude oil stocks, with refiners in the West, who run domestic crude oil maintaining about 6 days of oil, and refiners in Eastern Canada who run imported crude oil averaging 14 days.

Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 75 to 79 cents per litre in select centres for the **week of April 25, 2013**. Overall, compared to the previous week, Canadian and American centres recorded price decreases of less than 1 cent per litre to increases of nearly 3 cents per litre.

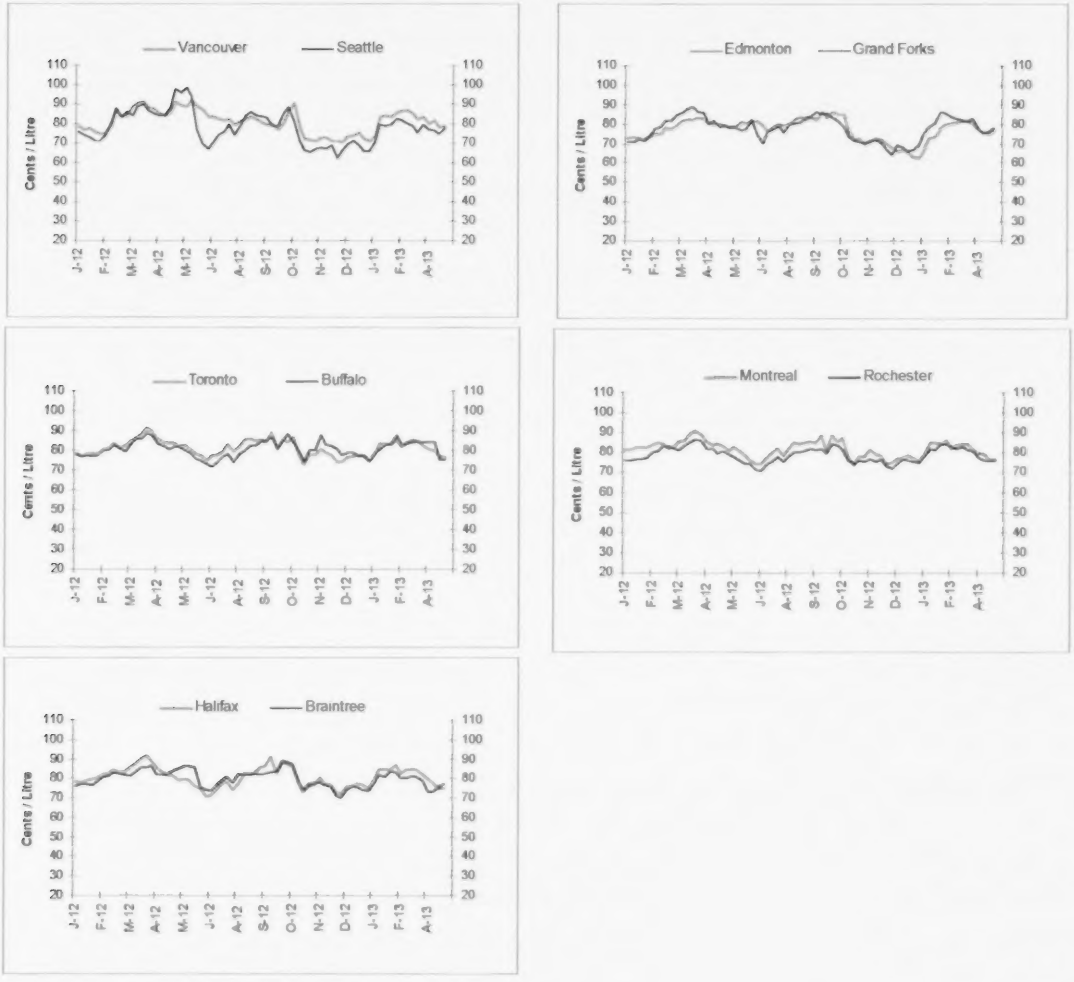
Changes in wholesale gasoline prices in Eastern markets of both Canada and the United States, when compared to the previous week, ranged from an increase of 1 cent per litre to a decline of less than 1 cent per litre. Prices for the period ended in the 75 to 77 cent-per-litre range.

Wholesale gasoline prices in Western centres increased in the range of 1 to 3 cents per litre and ended the period between 77 and 79 cents per litre.

In the last **four weeks**, wholesale prices in all Canadian and American selected centres have decreased in the range of 2 to 9 cents per litre.

Overall, wholesale gasoline prices in most markets are 3 to 9 cents per litre below last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 25, 2013
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

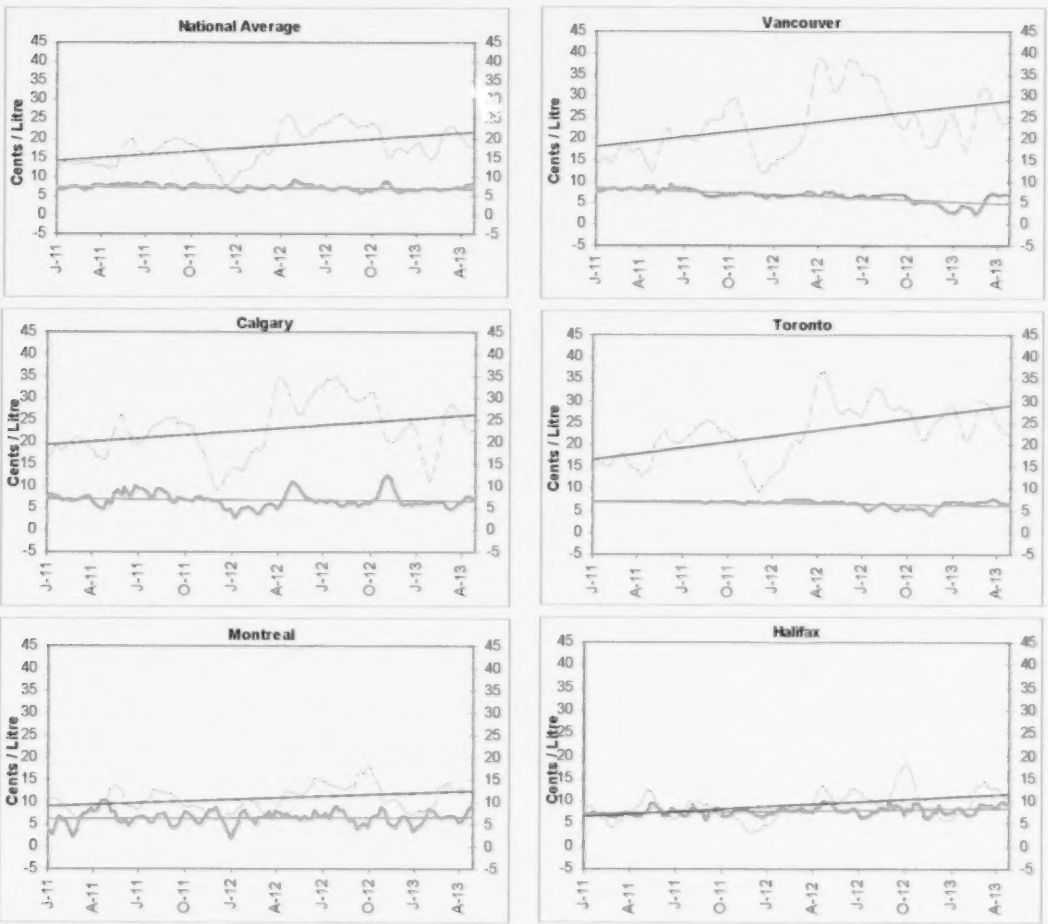
Four-week rolling averages are used for gasoline refining and marketing margins.

Overall, refining margins have declined in the last six weeks, an indication that decreases in wholesale gasoline prices have been more significant than price decreases for crude oil. This reflects an adequate gasoline supply in the distribution system and the decrease in demand for gasoline.

Refining margins are 1 cent per litre higher at the national level, compared to the same period last year.

Nationally, marketing margins, defined as the pump price, excluding all taxes, minus the wholesale or rack price, rose to 8 cents per litre. However, this represents a 1 cent per litre decline from the same period last year. Marketing margins for the five centres registered between 6.8 and 9.5 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 30, 2013
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Brent and WTI Price Differential Narrows while Edmonton Par Tracks WTI

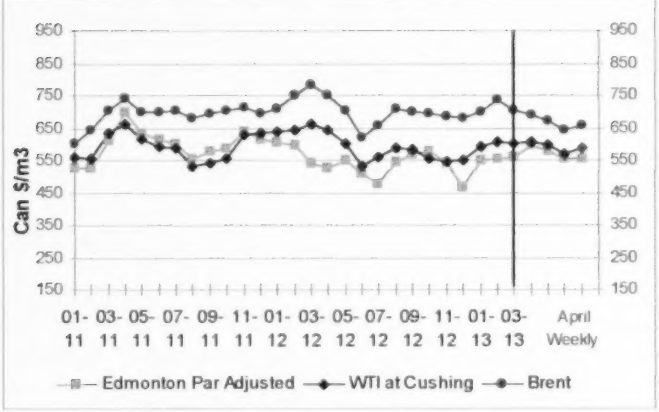
For the week ending April 26, 2013, crude oil prices averaged between $553 and $655/m³ ($US86 to $US102 per barrel). Brent crude oil prices, used by East Coast refiners in Canada, moved upward $11/m³ ($US1.78 per barrel), while WTI crude oil prices rose $21/m³ ($US3.37 per barrel) for the week under review. The price differential between Brent and WTI stood at $67/m³ ($US11 per barrel), while Edmonton Par declined slightly by $1/m³ ($US0.08 per barrel) during the same period.

Global crude oil prices fluctuated moderately on report forecasts of lower demand for oil in the U.S and in China.

U.S. crude oil inventories remain high compared to the historical five-year range, further contributing to moderate prices. In turn, this helped moderate prices of refined petroleum products.

Uncertainties with respect to European economic conditions continue to create a drag on global economic renewal as reflected by lackluster oil demand. In the absence of a crisis in oil-producing regions of the world or significant weather events causing disruptions to oil infrastructures, oil prices may tend to fluctuate in the similar range seen in the first quarter of the year.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-04-26		Change From:			
			Previous Week		Last Year	
	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl
Edmonton Par	553.17	85.96	-1.20	-0.08	+11.67	-1.33
WTI	587.44	91.29	+21.01	+3.37	-56.50	-12.51
Brent	655.10	101.80	+10.70	+1.78	-84.34	-17.39

Source: NRCan

Global Demand for Oil Drops for the Third Straight Year

According to the International Energy Agency's (IEA) *Oil Market Report* (OMR), the IEA expects 2013 to be the third consecutive year of weak growth in demand, adding only 795,000 barrels per day (795 kb/d).

Relatively strong demand growth among non-OECD countries of 1.28 million barrels a day (mb/d) will be tempered by a contraction of 480 kb/d in OECD consumption, particularly in Europe, where it will shrink by 340 kb/d. European demand has not been this weak since 1985.

The weight of renewed pessimism for the global economic outlook led to a decline in oil futures prices in March. Weaker demand for crude oil, amid exceptionally deep seasonal maintenance at refineries, added to the pressure.

Overall for 2013, non-OPEC supplies are expected to grow by 1.1 mb/d to 54 mb/d as South Sudan resumes exports, other disruptions abate and North American growth continues. OPEC crude oil supply turned lower in March, falling 140 kb/d to 30 mb/d, in the wake of disruptions in Nigeria, Libya and Iraq and against a backdrop of seasonally weaker second-quarter refiner demand.

Source: IEA OMR, http://iea.org/newsroomandevents/news/2013/april/name,36837,en.html